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THE CURRENT STAGE OF BASEL III APPLICATION AND ITS CONSEQUENCE ON FINANCIAL STABILITY: EVIDENCE FROM KOSOVO

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Abstract: *The study aims to explore the divergences around the implementation of the Basel III agreement, since this agreement is considered the core of the international regulatory response to the financial crisis, setting the strictest criteria for capital structure and risk assessment. This paper explains the current level of legislation that applies in Kosovo, as well as possible divergences with the criteria set by Basel III. It is argued that the national authority, explicitly the CBK, to decide on the implementation of Basel III, had to agree on three aspects and potentially conflicting between them: the stability of the banking sector, competition, and care for economic growth. Finally, the study concluded that Kosovo is implementing Basel III regulations with greater ease and attention, contributing to banking sector stability, competitiveness, and economic growth.*

Keywords: *Banking System; Financial Regulation; Capital; Risk Assessment*

INTRODUCTION

Numerous authors have argued that regulations for banking activities remain of great importance which increases the quality of investments in the economy so that depending on the quality of lending to support a higher and better economic growth which is necessary to support employment and economic development of the country. The banking industry is characterized by the problem of moral risk, which encourages banks to take on more risks (Ben-David *et al.* 2020). Exposure to excessive risk can lead to rising social costs.

The trend of globalization is modifying the structure of banking markets around the world, highlighting quite thoughtful matters related to financial stability. The current crisis confirms that the speed of spread and the magnitude of its negative consequences were also determined by the degree of the intertwining of the financial system of diverse states between them. This determines the risk of exposure as well as the degree of export or import of the crisis (Durguti 2020). This is clarified by the fact that the global crisis appeared with shock waves escalating in time. The first wave affected states through financial systems as well as mergers at a very high rate, while the last wave affected countries where the rate of opening and merging of their countries was relatively small. This group particularly includes the economies of the Western Balkans and in specific Kosovo. The potential risks become even sharper for the countries of the Western Balkans, given that the banking systems they have created are relatively new and inexperienced.

In the monetary history of Western Europe, it has been documented that the monetary crisis is not a new phenomenon. Europe has experienced economic crises in almost every decade within the last 400 years (Franklin and Douglas 2007; Kindleberger 1978, 264). It is a well-known fact that even economies with sophisticated technology as well as adequate managing of financial organizations cannot be immune to financial crises. It is the occasional appearance as well as recurrence of financial crises, despite its various forms, that imposes an in-depth study of their history in terms of guidelines and strategies aimed at improving systems (red flag), to isolate and limit their pervasive effect and at the same time facilitate crisis managing and reestablish the standard administration of markets as well as the economy as a whole. The trend of globalization of banking markets poses the necessity for superior advancement and control of financial intermediaries and the enforcement of regulations as a necessity for creating financial and monetary constancy. The Basel Committee on Banking Supervision (BCBS) has continuously promoted and published documents on banking supervision guidelines, starting with Basel I to Basel III, going through many debates to have a new regulatory framework on banks' capital as well as liquidity requests.

The enforcement of the new regulation according to Ademati *et al.* (2013) has aroused numerous debates by various researchers expressing positive and negative arguments. Implementation of regulations, on the one hand, has the logic of application that higher capital necessities affect (i) the creation of a sound financial system by reducing the risk of bank bankruptcy, (ii) in reducing systemic risk, and (iii) there will be low social costs as a result of eliminating the moral hazard. On the other hand, Angelini *et al.* (2011) arguments in contrast to the new capital regulation, as the main argument are that high capital requests will raise the cost of financing for banks (equity financing is relatively more expensive than borrowed financing), which will affect: (i) slowing the growth of lending and bring hypothetically detrimental effects to the economy, and (ii) affecting declining profitability, by reducing profits redistributed and eliminating opportunities for future expansion of banking operations (BCBS 2011). A different view from Angelini *et al.* (2011) has been underlined by Durguti *et al.* (2014) where they argue that well-capitalized banks can easily withstand financial shocks and that in these respects their cost increase is minor concerning benefits.

Therefore, the main purpose of this study is to take a closer look at the potential impacts proclaimed by critics on capital regulation, as well as the level of application of this directive in Kosovo. The paper is structured in that form, where an introduction to the influence also the prominence of applicable rule in the financial industry is initially presented, another section analyzes the requests arising from the Basel III regulatory context, the third section includes the Kosovo financial structure and the comparability of the adoption of this directive, and finally, the conclusions are reflected.

THE IMPLEMENTATION OF BASEL STANDARDS

The Implementation of Basel I and II Regulatory Reforms

Earlier in 1974, no worldwide regulations were governing the banking business, but after the bankruptcy of Bankhaus Herstatt in Germany and Franklin National Bank in the USA, the governors of the G10 central banks agreed to issue a regulatory package recognized as the Basel Committee on Banking Supervision. The purpose of this agency was to establish a standard directive for all banks operating in global markets and to establish good governance performance, and as such initially had no supervisory authority and its conclusions had no legal force, but were under the will of national supervisory authorities. This guideline initially focused on capital adequacy, which had decided for two ratios: CET1 to risk-weighted assets at 4% as well as total capital to risk-weighted assets at 8%. Banks to calculate these two indicators, no doubt had to be careful about risk exposure, respectively investment portfolio to evaluate their assets. According to Simmons (2001), the 1988 Agreement has two main objectives: a) to be impartial, to be at a high level under the applications in the banks of different states, to reduce the competitive inequality of global banks as well as b) should serve to reinforce, correct as well as stabilize the global banking system.

It seems that the Basel I regulation was not enough to fully assess the dissimilar types of risks. In the current conditions of development, financial institutions, respectively banks face not only credit risk, but a wide variety of financial risks, which within the regulation and strategy of Basel II should have a new approach to these risks. Innovations within banking services such as financial derivatives and securities have greatly affected the decline of traditional banking services (BCBS 2008; Arnaboldi and Rossignoli 2015). As a result of these innovations, the Basel I regulation was no longer sufficiently a benchmark for measuring capital adequacy as well as about the current risks that banks will face due to these innovations supported by new technologies. Based on all these developments specified above, Geoffrey *et al.* (2008) have underlined that there is a need to aim for more complete rules in line with the new challenges of the banking system, which was concretized on 15 January 2004[1], with a more advanced regulation, recognized as the new agreement on capital like Basel II.

The Basel II Agreement is considered an 'example of soft law' which is not legally binding on countries. This means that although expectations are in the contentment of their pledges, there is no sanction in not fulfilling or bypassing them (Gordy and Howells 2006). The new capital Agreement includes three areas, the so-called 3 columns of Basel II, a) minimal capital necessities, b) revision of the supervisory practice, and c) market discipline. So, this Agreement was again constructed on the capital, but in addition to credit risk, a singular emphasis is given to market risk and operative risk, which is measured as a novelty in this regulation compared to previous, that the focus was only on credit risk. Conferring to BCBS II, there are numerous aims as:

- Maintain a stable and sound financial system,
- Build a meaningful correlation concerning the bank's off-balance-sheet besides balance-sheet items about hazard exposure,
- Make stronger link among worth regulatory capital as well as hazard oversight set out in Basel II,
- To increase strictness in the market, throughout better evidence about risk profile, risk measurement techniques, and capital,
- Build a regulatory framework that will be appropriate for financial innovation (BCBS 2008).

Based on the new Agreement, about measuring the capital appropriateness of banks, three categories of threats should be assessed, comprising credit, market, and operating risk on the one hand, and the definition of approaches for their estimation on the other hand (Figure 1).

[1] Bank for International Settlements. *Implementation of Basel II: Practical Considerations.* Basel Committee on Banking Supervision (2004, 40). Available at: https://www.bis.org/publ/bcbs109.htm

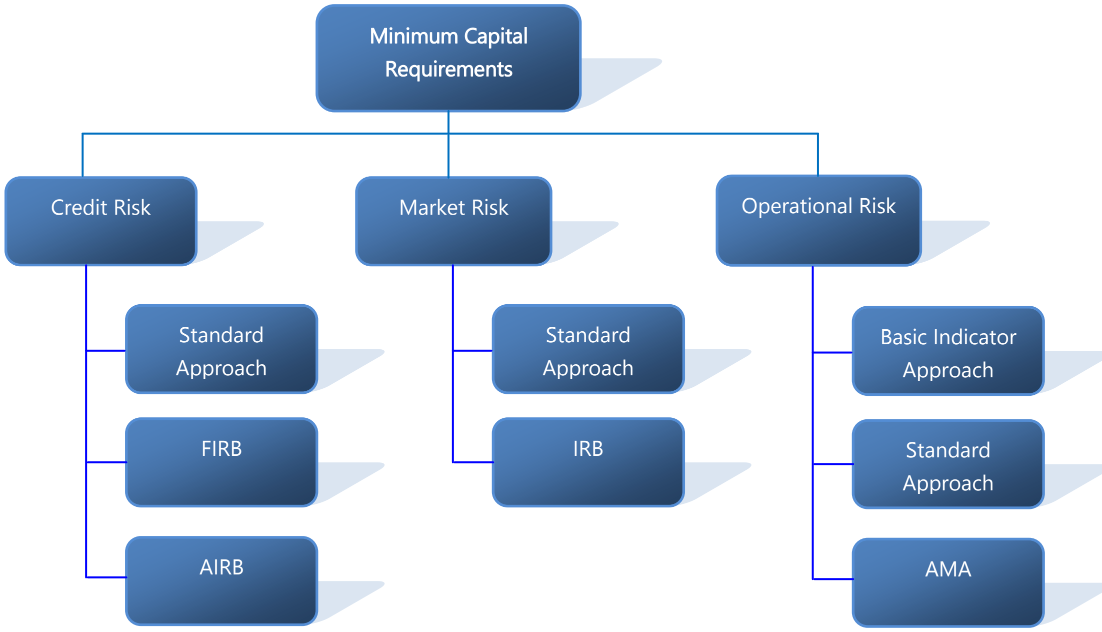

Figure 1: BCBS II New Requirements (Source: BCBS 2007)

Thus, based on the figure presented above, on the defined criteria as well as the approaches that should be applied in the evaluation, the equation expressions are:

$$\text{CAR} = \frac{\text{Total capital}}{\text{RWA} + [12.5 * (\text{market risk} + \text{operational risk})} \geq 8\%$$

Review of the Basel II Regulatory Framework and the Needs for Basel III Proposals

The economic crisis of 2007-2008 identified certain real dilemmas in the regulatory and oversee context of the financial intermediaries and in specific of banks. Endorsements from the highest level of world finance (US Treasury, US Federal Reserve, G7, G8 countries, BCBS, World Bank, IMF) decided that the worldwide structure for financial arrangements needs to be urgently reviewed and strengthened through stricter requirements. This strengthening has been interpreted as the improvement of general as well as universal principles of good practice in parts such as data giving out, banking supervision, corporate governance, and accounting (IMF, BCBS, Financial Stability Forum, G20 states in 2008).

All strategies and recommendations for increasing the ability to predict the recurrence of banking crises and minimize their chain effects were considered important, clarification, completion, and adequate implementation of policies as well as supervisory institutions.

At the Cannes meeting held on 4 November 2011, the regulatory authorities were called upon to fulfill their commitment to the full and continuous implementation of the Basel II regulation on risk management, as well as the Basel II-5 on additional requirements for trade activities and financial innovations up to the end of 2011, and with the start of Basel III regulation on capital and liquidity standards, respecting the transitional periods from January 2013 and full completion by January 2019.

During this period there has been a lot of debate about the transnational banking system, whether the banking system would have been affected by these crises if the capital regulation known as Basel II was fully enforced. During these discussions, the prevailing view was that the Basel II principles had not been sufficient to withstand these shocks and that the crisis had revealed many shortcomings which needed to be corrected as soon as possible. Basel II has been criticized especially for its low orientation on the significance of liquidity ratio analysis as well as its very high reliance on specialized agencies such as Moody's, Standard and Poor's, Fitch on the classification of loans that have lost credibility. International institutions such as the IMF and the World Bank were also dissatisfied with the course of the application process of Basel II, especially because of the difficulties with application in the United States, which means different regulations for banks around the world, problems with subsidies, problems with the regulatory authority as well as for the time delay on the application of the new rules. Following these criticisms, the BCBS began reviewing Basel II and creating a new regulation almost immediately. In September 2008, BCBS put out a paper titled 'Sustainable Principles on Liquidity Risk Management and Supervision' (BCBS 2008). This was the first reaction to one of the shortcomings of Basel II which had not addressed liquidity and risk management in general sufficiently. In July 2009, BCBS published the final version of its regulatory effort, a document titled 'Review of Basel II Market Risk Regulation' (BCBS 2010).

This regulation includes techniques that should be promoted around capital adequacy for stages of monetary turmoil, to improve the quality of capital, and also how to calculate the leverage ratio. All of these techniques specified in the revised regulations have become an important part of the new Basel III regulations.

Basel III Regulatory Requirements and their Specifics

The core reason for moving from Basel II to the new regulatory outline was to respond to the monetary crisis by reinforcing regulatory authorities as well as supervisory rules. BCBS has developed a new framework to improve the banking segment's ability to absorb shockwaves and reduce the effects of crises. According to the BCBS and (Drezner 2010), the crisis was caused by the deterioration of the capital base in two respects, both in terms of quantity and quality, insufficient coverage of the liquidity level, exceeding the ratio of leverage, and the pro-cyclical reduction of the leverage ratio. The new regulation is designed to make substantial reforms aimed at addressing previous regulatory failures. The new regulation should be based on careful analysis at the micro and macro levels. At the micro-level, it tries to create the highest resilience in the face of economic and monetary shocks by banks, while at the macro-level; the focus is on risk analysis worldwide as a whole. The new Basel III regulation is based on the three pillars introduced under Basel II, but with some stricter requests on the conduct of Capital Adequacy Ratio (CAR), liquidity, and risk assessment as a whole.

The new guidelines on CAR will raise the quality and quantity of capital that intermediaries' organizations should have by tightening the environments of what can be classified as capital as well as growing the requisite proportion of this capital to Risk Weighted Assets (RWA). To understand how to raise the quality of capital it is considerable to understand the main definitions of capital and how they have changed with the introduction of Basel III. Capital affording to Basel II consisted of first-class, second-class, and third-class. However, through the entry into force of Basel III, the redefinition of the first-class (the basic capital of the bank and the supplementary capital of the first class), the harmonization of the second class, and the third class were eliminated. For every single of the three groups of capital mentioned above (shares, supplementary share capital, and second class), special standards are defined, where each mechanism must be included in the respective category.

Tier 1 capital: signifies the share equity of a bank, which contains share equity as well as retained- earnings. With the introduction of Basel III, some types of capital were classified as fewer qualitative, such as deferred active tax, and were excluded from sorting as first-class capital. The new rules also exclude in most cases the recognition of non-controlling interests as part of the initial capital.

Tier 2 capital: represents 'secondary' capital, less quality than tier 1 capital, which included elements such as unreported funds, total reserves, subordinated debts, as well as those assets which are known as 'hybrid' capital. 'Hybrid' capital is that capital that has some debt-like qualities (payments to investors that are classified as interest and therefore deducted as expenses for tax purposes) but that is seen as capital from the point of view of depositors because it comes after deposits in the liquidation hierarchy. With the introduction of the new Basel III rules, most of the 'hybrid' capital, as we know it, will not be able to be classified as second-class capital.

Total capital: is the amount of first-class and second-class. It is important that the second-class cannot be greater than the first-class, which is worth it that at least 50% of a bank's total capital must be first-class. To understand what it means to upturn the minimum required capital, it is essential to understand how the amount of capital is measured and how it has changed with the introduction of the Basel III regulations. Both under Basel II and Basel III the prerequisite minimum capital for a bank is expressed as the ratio of capital to total RWA.

To calculate the total RWA a bank's assets are weighted according to notional risk categories, which are assigned a risk weight following the amount of capital required to support them. The next table summarizes the formulas for measuring the quantity of capital, the mandatory minimums under Basel II then Basel III and the modifications in the mandatory minimums among Basel II and Basel III.

Table 1: Specifics of Changing Requirements (Source: BCBS 2017)

Ratio	Equation	Basel II	Basel III	Difference
Minimum Capital Ratio	Paid Capital / RWA	2.0%	7.0%	*5.0%*
CET1	Tier 1 Capital / RWA	4.0%	8.5%	*4.5%*
Total Capital Ratio	Total Capital / RWA	8.0%	10.5%	*2.5%*

From Table 1, it is clear that the mandatory minimum for all capital measures has increased, but these increases have been applied since January 2013, and the deadline was January 2019. However, it is worth remarking that this framework is constantly undergoing modifications, adapting to the created situations and, the sole purpose of which is to reinforce and maintain financial steadiness. The transitional agreement on the slightest capital under Basel III in (%) is.

Table 2: Increase in Capital Ratios and Transition Periods (Source: BCBS 2017)

Ratio	2013	2014	2015	2016	2017	2018	2019
Minimum Capital Ratio	3.5	4.0	4.5	4.5	4.5	4.5	4.5
Capital Conversation Buffer				0.625	1.25	1.875	2.5
Minimum Capital + CCB[2]	3.5	4.0	4.5	5.125	5.75	6.375	7.0
Minimum of CET1	4.5	5.5	6.0	6.0	6.0	6.0	6.0
Minimum of Total Capital	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Minimum of Total Capital + CCB	8.0	8.00	8.0	8.625	9.25	9.875	10.5
Liquidity Coverage Ratio					80	90	100.0
Net Stable Funding Ratio						100.0	

Although this temporary period is deliberated as an adequate period to implement these principles and standards, in 2017 a review of the provisional period was ended and this extended period is the known period 2017-2027, undergoing some fundamental changes especially on the part of risk coverage (BCBS 2017).

[2] CCB: Capital Conversation Buffer.

In 2017, the Committee has decided to make some necessary reforms of Basel III, which in the intermediary industry is known as Basel IV, which should start to be implemented from January 1, 2022. The key objective of this framework is to restore the credibility of this regulatory framework. Even based on this proposal, the share of capital remains the main issue but gives the greatest focus on risk. And the equation is:

$$\text{Risk} - \text{based capital ratio} = \frac{\text{Regulatory capital}}{\text{Risk} - \text{weighted assets}}$$

Thus, as we have pointed out earlier in almost all the changes made over the years, the focus was on the quality of regulatory capital, and the greater than before focus on assets exposed to risk. The reason for the focus is that banks fund their reserves with a mixture of the capital configuration as well as the financial instruments known as debt, although the quality of the capital configuration can consume losses that may occur as a result of a default on their part by the borrowers. Regulatory capital devours losses and some concerns as follows:

- CET1 contains ordinary shares, retained earnings, and other reserves. These portions are measured to be of the highest quality of capital and devour immediate losses.
- AT1 (additional level of capital): consists of capital market instruments that have a fixed maturity. These instruments ensure the absorption of losses on the logic of concern and
- T2 (second level): consists of subordinated debt and loan loss provisions. This part is a disturbing part of the capital and as such can devour losses only in the process of bankruptcy before other depositors and creditors.

Table 3: Composition of Basel III (Source: Author's summary and BIS 2017)

CET1 (going concern)	Ordinary shares (CET1)	CET1 ≥ 4.5%
	Additional Tier 1 (AT1)	CET1 + AT1 = ≥ 6.0%
T2 (going concern)		CET1+AT1+T2 ≥ 8.0%

Commencing what has been analyzed and emphasized above, even in the transitional period on the application of new standards under Basel III, a detailed focus has been given to the approach to the risk exposure pattern. This main concept of the package has been translated into numerous different measures, including:

- Input floors and other restrictions that set minimums for the parameter estimates going into the risk-weight functions and restrict the use of the more advanced approaches using their estimates of loss given default.
- Output-floors providing a least possible Risk Weight Exposure Amount (REA) for banks using inside models set at 72.5% of the REA calculated using the standardized methods, i.e. devoid of the use of inside models.
- A revised standardized method for credit risk to increase the risk sensitivity of the standardized method for credit risk. This includes a more granular risk weighting method for residential real estate exposure (where risk weights now depend on the loan-to-value ratio).
- Revisions of the market risk and Credit Valuation Adjustment (CVA) risk framework. These limit the use of inside models for market risk and entirely remove the possibility to model CVA risk based on internal models. Also, the standardized approaches for market and CVA risk have been revamped.
- A new framework for operative risk that replaces approaches constructed on inside models as well as the original three standardized approaches.

Table 4: The main changes to the IRB approach for credit risk (Source: Author's summary and BCBS - Finalizing Basel III, in brief 2017)

Exposure Class	The Method Allowed Under New Standards	Change Allowable Methods Relative to Current CRS
Banks and other Financial Institutions	SA or F-IRB	A-IRB Removed
Corporates Belonging to Groups with Total Consolidated Revenues Exceeding EUR 500m	SA or F-IRB	A-IRB Removed
Other Corporates	SA, F-IRB or A-IRB	No Change
Specialized Lending	SA, Supervisory Slotting, F-IRB or A-IRB	No Change
Retail	SA Or A-IRB	No Change
Equity	Sa	All IRB Approaches Removed

THE CURRENT STAGE OF APPLICATION OF BASEL III IN KOSOVO

Features and Actual Stage of the Application

Kosovo's banking structure is considered a success story, knowing the specifics and challenges of restoring public confidence. We base this on the arguments that Kosovo before the 1999s had installed a violent system from the former Yugoslavia which had a functional system that did not consist of a free market economy. At the end of 1999, the United Nations Interim Administration Mission in Kosovo (UNMIK) in close cooperation with the assistance provided by the International Monetary Fund (IMF), issued regulations for the formation of the banking intermediary sector in Kosovo starting from zero, which had the main purpose of building a complete lawful guideline to create environments for the development of financial organizations. On 15 November 1999, based on Directive No. 1999/20[3] the 'Banking and Payments Authority of Kosovo' (BPK) was recognized, to assist the economic improvement of Kosovo by providing a well-organized payment system and a wide-ranging banking system. To advance the competencies of the BPK regarding the guideline, licensing and monitoring of financial institutions, Regulation No. 2001/24 has been issued amending Regulation No. 1999/20. This regulation creates the legal basis for licensing, supervision, and regulation of insurance companies and intermediaries as well as pension funds.

In August 2006, UNMIK issued a new regulation on the 'Central Banking Authority of Kosovo' (CBAK)[4] and based on this Regulation, the competencies, as well as the independence of the CBAK, have increased. The status of the CBK is defined in articles 11 (2) and 140 of the Constitution of the Republic of Kosovo and Law No. 05/L-209 on the Central Bank of Kosovo, which clearly defines the competencies, objectives, tasks, associations with the state, associations with financial intermediaries and the functions of the payment system, regulatory capital, organization and administration, financial statements and financial control. The regulatory authority, respectively the CBK, making full use of the assistance of credible institutions, has accepted the legislature and regulations, as well as other regulating acts recommended by the BCBS. This regulatory package contains the following decrees:

- Law No. 05/L-150 on Amending and supplementing the Law no. 03/L-209 on Central Bank of the Republic of Kosovo (revised on 23 March 2017);
- Law No. 04/L-093 on Bank, Microfinance Institutions and non-Banking Financial Institution (approved on 11 May 2012);

[3]UNMIK Regulation No. 1999/20 on 'Banking and Payments Authority of Kosovo'.
[4]UNMIK Regulation No. 2006/47 on 'Central Banking Authority of Kosovo'.

- Law No. 05/L-116 on Amending and Supplementing the Law No. 04/L-101 on Pension Funds of Kosovo, amended and supplemented by the Law No. 04/L-115 and Law no. 04/L-168 (approved on 1 January 2017);
- Law No. 05/L-155 on Payment System (approved on 3 May 2013);
- Law No. 05/L-045 on Insurance (approved on 24 December 2013);
- Law No. 03/L-216 on the Establishment of a Deposits Insurance System for Financial Institutions in Kosovo was approved on 23 November 2011, and amended and supplementing Law No. 04/L-133 (approved on 21 January 2013);
- Law No. 05/L-057 on Establishment of the Kosovo Credit Guarantee Fund.

Level of Implementation and Degree of Comparability

Level of implementation of the package according to the requirements of the Committee (BCBS) in Kosovo, almost all the recommended requirements are met and at the same time are being implemented precisely by the commercial banks that perform their activity. This level of implementation has been further facilitated by the exercise of banking activities by banks coming from Eurozone countries, which have obligations to the regulatory bodies where they come from. On the other hand, it is worth mentioning that commercial banks now have professional staffs that are competent to apply this regulation strictly. Also, the aspect of corporate governance is a critical issue considered as the cause of the financial crisis of 2008-2009. Therefore, based on this, the implementation of corporate governance components is a strict requirement set by the Central Bank of Kosovo and the BCSB. In this regard, based on the latest study conducted by Durguti and Kryeziu (2021) it has been argued that commercial banks operating in Kosovo are strictly implementing the requirements on the principles of corporate governance. Therefore, in the table below are presented the requirements from finalizing Basel III and the degree of applicability.

Table 5: Comparative Level of Implementation of Basel III in Kosovo (Source: CBK and BCBS)

Description	Request According to Basel III	Year of Application of Standards in Kosovo	Level of Implementation
Capital	Common Equity Tier 1 – CET1	29.11.2018	√
	Additional Tier 1 – AT1[5]	29.11.2018	√
	Tier 2 Capital -T2	29.11.2018	√
Risk Coverage	RWA for Credit Risk	29.11.2018	√
	RWA for Market Risk	29.11.2018	√
	RWA for Operational Risk	29.11.2018	√

[5] AT1: In addition to Common Equity Tier 1 banks must have a capital conservation buffer of Common Equity Tier 1 equal to 2.5% of risk-weighted assets on an individual and consolidated basis.

Approaches to Risk-Based Capital	Standardized Approach Used	29.11.2018	√
	A Revised Standardized Approach for Credit Risk	January 2023	χ
	Revised IRB Approach for Credit Risk	January 2023	χ
	Revised CVA Framework	January 2023	χ
	Revised Minimum Requirements for Market Risk	January 2023	χ
	Revised Operational Risk Framework	January 2023	χ
	Output Floor	January 2023	χ
Leverage Ratio	Existing (2014) Exposure Definition	29.11.2018	√
	Revised (2017) Exposure Definition	January 2023	χ
Liquidity	Liquidity Coverage Ratio (LCR)	29.11.2012	√
	Net Stable Funding Ratio (NSFR)	29.11.2012	√
Large Exposures	Supervisory Framework for Measuring and Controlling Large Exposures	29.06.2016	√

Findings and Discussions on the Implementation Stage of Basel III

Table 5, in the framework of the investigation, visually reflects the requirements promoted by Basel III, as well as the level of application within the banking structure of Kosovo. The regulatory body, respectively the CBK in relative to capital adequacy, is implementing them strictly, and what is worth noting in some cases has higher ratios than the BIS, the concrete case is the regulatory capital CET1 conferring to the necessities of the CBK should be ≥8%, while the total capital should be ≥12% of RWA. Likewise, in terms of measuring and assessing risk coverage when calculating capital adequacy, the three risk categories underlined with a special emphasis in Finalizing Basel III are included. The approaches that are allowed to be applied by commercial banks are now the basic approach and the internal standardization approach.

Basel III requirements regarding approaches to be applied from January 2023 are revised standardized approach for credit risk, revised IRB approach for credit risk, revised CVA context, revised minimum necessities for market risk, revised operational risk context, and output floor.

Regarding the leverage ratio, the necessities conferring to the instructions and regulations of the CBK are stricter in context to the requirements of Basel III, while affording to the suggestions from the BIS, a review of this component should be done and the application should start in January 2023. And those the other two issues reflected are the liquidity ratios and high exposures are in full implementation since 2012, respectively since 2016 modified and adjusted on-demand. The regulatory and supervisory package of the financial sector in Kosovo consists of even more acts and administrative instructions which regulate this specific field as a very important component of the economy, and the state as a whole.

CONCLUSION

In the aftershock of the global financial crisis, national regulators engaged in policy-making aimed at preventing, or at least reducing, the severity of future crises. At the worldwide level, through the Basel III Agreement, they revised the political instrument of capital requirements, intending to reconcile three different objectives. This research has argued that a comparative analysis focused on the configuration of national banking systems has a significant analytical impact on the calculation of regulators' preferences, explaining the disagreements that emerged in Basel and ultimately the weakness of the reforms finally agreed by the BCBS, despite the severity of the international financial crisis. The banking system configuration formed the regulator's understanding of sustainability, competitiveness, and growth concerns. We emphasize the particular importance of systematic models in the position of banking capital and bank-industry links to explain this understanding, while also recognizing the potential importance of other factors, including systematic models in the internationalization of banks (Howarth and Quaglia 2016) but also non-bank institutional factors, including the distribution of regulatory competencies in domestic level countries (Lombardi and Moschella 2016) - the examination of which should be the subject of further analysis.

The analysis supported in our concrete case gives us solid indications that the national regulatory authority - the CBK in agreement with other policy-making bodies to a considerable extent - has managed to approximate the legislation in the context of the requirements of Basel III. In this context, commercial banks have also played a dominant and facilitating role by investing in the creation of professional and competent staff with adequate training in European countries. Therefore, from the findings of the study, it is clear that commercial banks together with the regulatory authority - the requirements of Basel III are being competently implemented by the Central Bank of Kosovo. This level of applicability has undoubtedly contributed to the experience and good practices brought by banks coming from developed countries operating in the Kosovo market. And finally, as a general conclusion, despite the demands that a large number of countries have considered that these demands will negatively affect the profitability of banks on the one hand, and increase the cost of social welfare on the other hand in the banking system of Kosovo, neither of these two arguments is emphasized.

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Statement of human rights:
This article does not contain any studies with human participants performed by any of the authors.

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